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SUBJECT: SW CHINA CITY SEEKS TO BECOME MAJOR TRANSPORTATION HUB --  
WISE PUBLIC INVESTMENT, OR WASTEFUL PUMPING UP OF CHINA'S GDP?

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11. (U) This cable contains sensitive but unclassified information - not for distribution on the Internet.

12. (SBU) Summary. Leshan officials told Consul General that currently planned infrastructure projects would transform the city into a transportation and industrial hub for southwest China. The city's ambitious, three billion USD plan calls for construction of navigation locks (and hydropower dams) along Min River to enable larger vessels to transport goods to Shanghai, as well as a new development zone with multi-modal rail, highway, and river port connections. Officials also plan to build an airport and a high-speed light rail that would connect Leshan with Sichuan's provincial capital, Chengdu. Two of China's largest hydropower engineering firms will pay for this construction once the plan receives national-level approval.

13. (SBU) Comment: In the absence of data on expected returns on investment, we have to wonder whether this massive plan represents a smart move for China, or a white elephant. The locks will be hugely expensive, and yet the ships that will be able to navigate them will still have relatively small capacity. Chengdu's international airport has just completed its second runway, so a Boeing 757-capable airport for Leshan -- a mere 75 miles from Chengdu -- appears to be another big waste. Whether there will be enough passenger traffic to justify a high-speed light rail is yet another question. The only certainty in this project is that it is one more example of local officials lobbying provincial and central governments, and of state-owned enterprises using retained earnings and easy-money bank loans to pump up China's public investment -- already a grossly excessive, steroid-like percentage of GDP. End Summary and Comment.

Re-Engineering Water Transport to the Yangtze River

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14. (SBU) Officials in Sichuan's Leshan city recently told Consul General that China's central government may spend about 3 billion USD to improve navigation and develop hydropower on the Min River (Minjiang), a tributary of the Yangtze River. Leshan city officials concede, however, that the price tag for the construction could increase depending on the actual cost of the

navigation locks. The Minjiang already has as many as 70-80 dams, but Leshan officials seek build five additional dams along the southern portion of the river before it flows into the Yangtze. The combined power production of the new dams will be 1,400 megawatts.

15. (SBU) Once completed, Leshan officials expect that vessels with cargo capacities as high as 3,000 tons will be able to transport goods from Leshan's port facilities to Shanghai in 7-8 days. A key variable in this transit time will be how quickly the vessels are able to pass through the locks at the Three Gorges Dam. Leshan port currently only has the capacity to handle vessels up to 750 tons. Low water levels during the dry winter season from November to April currently plague navigation along the river, but officials expressed confidence that the new dams would resolve this issue. Sichuan's provincial government has already approved the project, and officials said they hoped to receive national-level approval by the end of next year. Leshan officials said that two state-owned hydroelectric firms, SinoHydro Corporation (Zhongguo Shuidian Jianshe Jituan Gongsi) and China Huadian Corporation (Zhongguo Huadian Jituan Gongsi), would pay for the construction of the dams and locks, although it is unclear how these firms plan to recoup their investment costs. The entire project could be completed as early as 2015, but some officials projected that 2018-2020 is a more realistic time frame.

Sichuan's Dongfang Electric Corporation May Benefit from Expanded Port

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16. (SBU) At several points during the conversation, Leshan officials mentioned that the increased shipping capacity on the Minjiang would help companies like Dongfang Electric Corporation, which is a large state-owned enterprise headquartered north of Chengdu. Dongfang produces power generation equipment for thermal, nuclear, wind, and hydropower plants. Officials specifically highlighted that Dongfang could use the waterway to ship parts for hydroelectric and nuclear plants. (Note: Expanded port capacity in Leshan may be particularly beneficial to companies like Dongfang because some of the power generation equipment it produces is large, heavy, and difficult to move via road or rail. End Note.)

Development Zone, Airport, and High-Speed Rail

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17. (SBU) Leshan officials provided us a boat tour towards a large development zone, also part of the overall development plan, that would be located south of the city and north of the river locks. The boat cruised past the Leshan "Giant Buddha," whose construction was started in 713 during the Tang Dynasty and is now part of a UNESCO World Heritage Site. The new development zone would be adjacent to a smaller, existing zone that has foreign investment from several foreign companies including a U.S.-invested semiconductor company (septel). The multi-modal zone will also have a rail station, highways, and a large river port loading facility. The zone's plan originally had an airport at its center, but officials indicated that the airport would be shifted to a new location because of concerns by residents about noise pollution.

¶18. (SBU) City officials say that they plan to build an airport, possibly located near town's main business district, which will have the capacity to land planes as large as a Boeing 757. One semiconductor firm in Leshan told CongenOff that an airport in Leshan would reduce time and potentially costs for products they export. The firm currently ships its products to Chengdu, about 75 miles north, where they are loaded on planes and exported to destinations around the world.

¶19. (SBU) Leshan officials also talked about the planned high-speed rail line that will connect the city to Chengdu and Mianyang. The rail line, when completed, will take 30 minutes to reach the provincial capital and another 30 minutes to reach Mianyang, a city noted for science and technology research. (Note: Officials did not address how the planned high-speed rail service might undercut passenger demand for flights from the new airport. Leshan may end up competing with Chengdu's larger airport for customers. End Note.)

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